

State of New Hampshire Information Statement Supplement Dated November 15, 2002

The following information is provided by the State to supplement the information contained in the State's most recent Information Statement dated August 14, 2002 (the "Information Statement"). The Information Statement is included as Part II of the State's Official Statement dated August 14, 2002, which is available on the New Hampshire Treasury Department website as the document entitled "New Hampshire State Treasury Official Statement – 08/14/02" at <http://webster.state.nh.us/treasury/Divisions/DM/DMdocs.htm>. The headings set forth below correspond to the same headings in the Information Statement. This Information Statement Supplement (the "Supplement") only sets forth additional information concerning the matters described below as of the date of this Supplement and is subject to change without notice.

STATE GOVERNMENT

Executive Branch

On November 5, 2002, Craig R. Benson was elected Governor of the State. He will take office on January 9, 2003.

STATE DEMOGRAPHIC AND ECONOMIC DATA

Civilian Labor Force, Employment and Unemployment

The State's civilian labor force for September 2002 was 705,000, of which 675,000 were employed and 30,000 were unemployed. The unemployment rate for September 2002 for the State was 4.3%, as compared to 4.5% for New England and 5.4% for the United States.¹

Utilities

The sale of the Seabrook nuclear power station was completed on November 1, 2002. Florida Power and Light is the new owner and operator of the plant.

STATE FINANCES

Fiscal Year 2003 Budget

Revenues. The following table compares on a cash basis, for the four months ended October 31, 2002, General Fund and Education Fund unrestricted revenues for the fiscal years 2002 and 2003 and a comparison to the revenue estimates for fiscal year 2003. The revenue estimates reflected in the plan are based on those revenues defined in Chapter 130, Laws of 2001, the State budget law for Fiscal Year 2003. Due to the combined filing of the business profits tax and business enterprise tax, it is not possible to measure accurately the individual effects of each of these taxes. They should be evaluated in their entirety. All information in this table is preliminary and unaudited.

¹ Source: U.S. Department of Labor, Bureau of Labor Statistics, Local Area Unemployment Statistics Division.

**GENERAL FUND AND EDUCATION FUND UNRESTRICTED REVENUES
FOR THE FOUR MONTHS ENDED OCTOBER 31, 2002
(Cash Basis-In Millions)**

Revenue Category	FY02 Actual	FY03 Actual	FY03 Plan	FY03 vs Plan		FY03 vs FY02	
				Variance	%Change	Variance	%Change
Business Profits Tax	\$39.8	\$38.0	\$67.7	\$(29.7)	-43.9%	\$(1.8)	-4.5%
Business Enterprise Tax	<u>56.3</u>	<u>59.5</u>	<u>44.1</u>	<u>15.4</u>	<u>34.9</u>	<u>3.2</u>	<u>5.7</u>
Subtotal	76.1	97.5	111.8	(14.3)	-12.8	1.4	1.5
Meals & Rooms Tax	68.3	71.2	77.8	(6.6)	-8.5	2.9	4.2
Tobacco Tax	31.1	32.9	30.4	2.5	8.2	1.8	5.8
Liquor Sales and Distribution	33.5	35.5	34.1	1.4	4.1	2.0	6.0
Interest & Dividends Tax	16.0	12.6	15.9	(3.3)	-20.8	(3.4)	-21.3
Insurance Tax	16.3	18.6	14.5	4.1	28.3	2.3	14.1
Communications Tax	19.0	21.8	23.8	(2.0)	-8.4	2.8	14.7
Real Estate Transfer Tax	36.3	43.8	37.4	6.4	17.1	7.5	20.7
Estate and Legacy Tax	24.5	19.2	18.4	0.8	4.3	5.3	-21.6
Transfers from Sweepstakes	22.0	15.6	16.5	(0.9)	5.4	(6.4)	-29.1
Tobacco Settlement	-	-	-	-	-	-	-
Utility Property Tax	4.6	4.5	5.1	(0.6)	-11.8	(0.1)	-2.2
Property Tax Not Retained Locally	-	-	-	-	-	-	-
Property Tax Retained Locally	-	-	-	-	-	-	-
Other	<u>35.9</u>	<u>37.4</u>	<u>35.5</u>	<u>1.9</u>	<u>5.4</u>	<u>1.5</u>	<u>4.2</u>
Subtotal	403.6	410.6	421.2	(10.6)	-2.5	7.0	1.7
Net Medicaid Enhancement Revenues	<u>75.5</u>	<u>80.8</u>	<u>77.3</u>	<u>3.5</u>	<u>4.5</u>	<u>5.3</u>	<u>7.0</u>
Subtotal	479.1	491.4	498.5	(7.1)	-1.4	12.3	2.6
Other Medicaid Enhancement Revenues to Fund Net Appropriations	<u>3.4</u>	<u>3.4</u>	<u>3.4</u>	<u>-</u>	<u>0.0</u>	<u>-</u>	<u>0.0</u>
Total	<u>\$482.5</u>	<u>\$494.8</u>	<u>\$501.9</u>	<u>\$(7.1)</u>	<u>-1.4%</u>	<u>\$12.3</u>	<u>2.5%</u>

Revenues for the first four months of Fiscal Year 2003 are \$7.1 million below the plan derived from the current state budget, Chapter 130, Laws of 2001. Shortfalls to date are occurring primarily in Business Taxes at \$14.3 million, Meals and Rooms Taxes at \$6.6 million and Interest and Dividends Taxes at \$3.3 million. These shortfalls are somewhat offset by increases over plan in the Insurance Taxes collections of \$4.1 million, Real Estate Transfer Taxes of \$6.4 million, and Tobacco Taxes of \$2.5 million. The recent closing of the sale of the Seabrook nuclear power station resulted in a real estate transfer tax payment of over \$6 million that is not reflected in October revenues, but is expected to be included in December revenues.

In connection with the following four paragraphs, see also the table entitled "General and Education Fund Balances Fiscal Years 2001-2003" on page 30 of the Information Statement.

On September 30, 2002, the Department of Administrative Services presented Fiscal Year 2002 unaudited financial statements to the Legislative Budget Assistant's Office. These statements are now being audited by the State's outside auditors. Their review is anticipated to be completed by the end of November, although the State's audited financial statements are not expected to be publicly available until December, 2002 or early January, 2003. The unaudited information as of September 30, 2002 indicated an aggregate shortfall of approximately \$23.5 million (as compared to the previous estimate of \$22.2 million) in the General Fund and a shortfall of approximately \$17.0

million (as compared to the previous estimate of \$17.2 million) in the Education Trust Fund for a combined deficit of approximately \$40.4 million. The earlier estimate for Fiscal Year 2002 was for a combined deficit of \$39.4 million.

As described in more detail in the Information Statement under the heading “STATE FINANCES – Health Care Fund,” the State is pursuing an appeal with the federal Center for Medicare and Medicaid Services (“CMS”), which, unless resolved in the State’s favor, would result in an additional charge against the Health Care Fund (“HCF”) of up to \$14.8 million for the current biennium. In connection with the preparation of the unaudited financial statements for Fiscal Year 2002, the Department of Administrative Services reduced the balance of the Health Care Fund (“HCF”) by \$11.8 million to an aggregate amount of approximately 33.9 million. If the appeal is resolved in favor of the State prior to December 1, 2002, the transfer will be reversed and the funds restored to the HCF. The State cannot now predict the outcome of this matter.

On October 24, 2002, CMS deferred \$24.6 million of federal grant award for medical assistance in the Medicaid program. CMS challenged the State’s methodology used in the submittal for the period April 1, 2002 through June 30, 2002, requesting additional information from the State. The State has 60 days to respond to the deferral notice. The outcome of this matter is uncertain at this time. If the decision were unfavorable to the State the maximum exposure would be to set up an accounts receivable for one half of the \$24.6 million, or \$12.3 million, from the counties and the other \$12.3 million would reduce the State’s Fiscal Year 2002 balance by \$12.3 million. Due to this matter and certain other adjustments, the Fiscal Year 2002 combined deficit is currently estimated to be \$50.5 million. The State does not expect that this matter will be resolved prior to the time it releases its audited financial statements for Fiscal Year 2002 and it is likely that the Fiscal Year 2002 deficit to be shown in such audited financial statements will be the \$50.5 million amount in the previous sentence.

The State cannot yet predict what impact, if any, these matters will have on the aggregate deficit forecast for the current biennium. It is probable that the aggregate deficit will be higher than the previous forecast of \$70.4 million based, at least in part, upon the higher deficit for Fiscal Year 2002. Based on the current information available, the State continues to believe that the aggregate deficit will not exceed the reserves the State currently has in the Revenue Stabilization Account and the HCF, which, taking into account the transfer from the HCF described above, currently total approximately \$89.1 million. However, the actual aggregate deficit will depend upon a number of factors, including revenue performance and expenditures for the remainder of the Fiscal Year 2003 and actions taken by the State during this fiscal year to address this matter.

STATE INDEBTEDNESS

Agencies, Authorities and Bonded or Guaranteed Indebtedness

New Hampshire Business Finance Authority. The Authority issued \$25 million State guaranteed bonds in November, 1992, of which \$18.7 million remained outstanding as of April 1, 2002. In April, 2002, the Authority issued \$10 million of State guaranteed bonds, \$5 million of which were used to refund an equal amount of 1992 bonds. The Authority plans to issue an additional \$10 million of State guaranteed bonds in December, 2002 to refund an equal amount of 1992 bonds. The Authority also intends to redeem \$1.2 million of 1992 bonds from available cash.

SCHOOL FUNDING

On August 8, 2002, the State filed an objection to the plaintiffs' Motion for Attorneys' Fees. On September 17, 2002, the New Hampshire Supreme Court issued an order that the plaintiffs are entitled to an award of attorneys fees, but left it to the parties to negotiate the amount. The order provided that, unless the parties reached an agreement by October 31, 2002, the matter would be referred to a master for further action. On November 1, 2002, the plaintiffs notified the Supreme Court that the parties were unable to settle the claim for attorneys' fees and requested that a master be appointed. It is expected that a master will be appointed within the next month and that the matter will proceed to resolution within the next six months. The plaintiffs have submitted a request for approximately \$51,000 in attorneys' fees.

THE STATE OF NEW HAMPSHIRE